

Do Research Before Buying a Small Business

So you want to buy a business. Now what?

“Buying a business can be a great way to get started,” says Glenn Muske, the North Dakota State University Extension Service’s rural and agribusiness enterprise development specialist. “You already know if the business can make it, plus you already have an existing market base who know you exist.”

Before going too far into examining the business, you, as the prospective owner, need to consider what is prompting this decision to buy..

- Is the business in an area where you have a passion or some special talents?
- What is your current financial situation?
- How well do you tolerate risk?

“If your answers are positive and you still want to go ahead, it is time to dig deeper,” says (Insert name and title) of (Insert county). “Everything may not be going as well as it seems on the outside.”

Digging deeper means doing due diligence. As the future owner, you want to assure yourself that everything is as promised or listed and that you won’t find any surprises. Areas you need to examine include the business’s financial performance, the list of its current clientele and work that has been promised or is under way.

Also, you need to examine the legal and regulatory aspects of the company. Are all necessary permits and licenses in place, and has all the required paperwork been completed? You also must examine if the sale of the business triggers any new rules or regulations or negates any situations in which the business had been “grandfathered in” but the sale opens news requirements.

Don’t forget: If the business includes a physical space, that inspection of the building becomes part of your due diligence. Include contracts or leases that you will be assuming. Make sure you can assume these contractual obligations or whether they will need to be renegotiated.

In addition to contracts and leases, you need to see all financial records for the last three to five years, at a minimum. These records should include tax returns, proof that no tax or other liens exist against the business or the property, and a list of key employees and all partners/shareholders in the business.

As you work through the process, you probably will need to generate other documents, such as a letter of intent, confidentiality agreement and sales agreement. Make sure your agreement is detailed and includes everything.

Buying a business is a difficult task. For your protection, you strongly need to consider building a team who includes a certified public accountant, attorney and mentor. A mentor can help you make sure you ask the right questions. The mentor also can be the person who keeps you focused on asking the tough questions.

“Owning a business can be rewarding,” [insert last name] says. “Buying an existing business can offer some real advantages. Doing it right from the beginning is the first key.”

For help, contact your local Extension Service office at [insert phone number and email address]. Also visit NDSU’s small-business support website at www.ag.ndsu.edu/smallbusiness and sign up for the monthly newsletter. Or check out Facebook at www.facebook.com/NDSUextsmallbiz or Twitter at @gmuske.

Other resources include <http://powerofbusiness.net> and www.eXtension.org/entrepreneurship. The Small Business Administration and its related organizations, such as the Small Business Development Centers and SCORE, also can be valuable resources.

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For more information, contact glenn.muske@ndsu.edu or call (701) 328-9718. You also can visit our website, www.ag.ndsu.edu/smallbusiness.